

**SYSTEM PLANNING CORPORATION**

1000 Wilson Boulevard, Arlington, VA 22209



**Political and Economic Implications  
of Global Naval Presence**

**Briefing Report**

**September 30, 1996**

**Dov S. Zakheim**

**Sally Newman**

**Jeffrey M. Ranney**

**Richard Smull**

**with**

**Peter Colohan**

**Roger Zakheim**

Prepared for:  
Office of the Deputy Chief of Naval Operations,  
Resources, Warfare Requirements, and Assessments  
Assessment Division (N81)  
The Pentagon  
Washington, DC, 20350-2000

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# Political and Economic Implications of Global Naval Presence

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## STUDY OBJECTIVE

- ▶ Explore and attempt to quantify U.S. Navy's value in maintaining economic and political stability in East Asia, the Mediterranean littoral and the Middle East
- ▶ Evaluate regional awareness of importance of overseas Naval presence
- ▶ Outline and explore linkages between naval presence and American economic interests overseas



# **U.S. Navy: The Future of Global Presence and Engagement**

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## **OUTLINE OF BRIEFING**

### **Definitions**

#### **Regional Views on Value of U.S. Presence**

- Role of U.S. Overseas Presence
  - Special Role of U.S. Maritime Presence
- Reliability of U.S. Presence
- Views on US Contribution to Stability and Economic Prosperity

### **Indicators of U.S. Economic Interests Overseas:**

#### **Implications for Peacetime Presence**

- Investment Indicators
- Presence, Crises, and Investment

### **Presence-based Deterrence vs. Warfighting: A Cost Comparison**

#### **Conclusions and Implications**

- General
- For EUCCOM
- For CENTCOM
- For PACOM



## Presence

Defined as "operating forward" to:

- Build a positive American image
- Build foundations for viable coalitions
- Enhance diplomatic contacts
- Reassure friends
- Demonstrate U.S. power and resolve
- Contain crises

"...From the Sea"

and

- Underwrite regional stability

"A National Security Strategy of  
Engagement and Enlargement," 1996.



## Additional Definitions

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- ▶ ADRs - American Depository Receipts
- ▶ AGR - Annual growth rate
- ▶ Direct investment figures represent cumulative direct investment for each year on a historical cost basis.
- ▶ "East Asia" consists of: Japan, China (PRC), Taiwan (ROC), S. Korea, Singapore, Indonesia, and Hong Kong.
- ▶ "GCC Nations" consist of: Saudi Arabia, UAE, Bahrain, Oman, and Qatar. Figures for Kuwait are not available due to disclosure requirements.
- ▶ "OECD" - consists of: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and the U.K.
- ▶ "Persian Gulf" - consists of: Bahrain, Iran, Kuwait, Iraq, Qatar, Saudi Arabia, and the UAE.
- ▶ US Trade figures are given in current dollars.



**Regional Views on Role of U.S. Overseas Presence:  
-- *The View from the Eastern Mediterranean* --**

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- ▶ Greek and Turkish opinion leaders agree that American military presence stabilizes and constrains their historic rivalry
- ▶ Greek public accepts American presence
- ▶ Turkish public ambivalent about the level of American presence, primarily as a result of activity generated by Operation Provide Comfort
- ▶ Nevertheless, Turkey also sees American presence as a deterrent against Iran and Iraq

(Continued)



**Regional Views on Role of U.S. Overseas Presence:  
-- *The View from the Eastern Mediterranean (Cont'd)* --**

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- ▶ Israelis unanimous in welcoming American military presence as a key deterrent against aggression by hostile Arab states
- ▶ Israelis do not view American military presence as in any way replacing their own military requirements and responsibilities
- ▶ Israel considers military presence to be the most credible indicator of ongoing American interests and concerns in the region
- ▶ No other state is seen as replacing or duplicating the role of U.S. forward deployed military forces in the region

(Continued)



**Regional Views on Role of U.S. Overseas Presence:  
-- *The View from the Eastern Mediterranean (Cont'd)* --**

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▶ "U.S. presence in the area is vital to Turkey, not just for the Black Sea, but also for Iran and Iraq...European Navies lack the capacity to constitute such forces on a scale and versatility comparable to that of the United States." --General Halis Berhan, Chief of Turkish Air Force (ret.), May 1996.

▶ "U.S. military presence is a major contribution toward preventing military problems. U.S. presence is now accepted by the general public." --Commodore Antonio Antoniadis, Director, Policy Division of the Hellenic Navy, General Staff, May 1996.

▶ "I am deeply impressed by the power that is available here...It (*USS Enterprise*) is really not the power of War, it is the power of peace. The fact that the United States, our great ally, has this power is the best guarantor for peace worldwide." Israeli Prime Minister, Benyamin Netanyahu, remarks aboard the *USS Enterprise* (Source: "Netanyahu Visits *Enterprise*," *NavNews*, Vol. 35-96, August 29, 1996, p.1.



## **Regional Views on Role of U.S. Overseas Presence: --The View from the Arabian Peninsula--**

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- ▶ U.S. presence generally seen as a stabilizing factor, even among rivals in territorial disputes (Qatar/Bahrain; Qatar/Saudi Arabia)
- ▶ Bahrainis see America's military role as a deterrent against Iranian pressure
- ▶ Qataris see U.S. military presence as reassurance against pressures from larger Gulf neighbors, including Saudi Arabia
- ▶ Mixed feelings in the U.A.E. about U.S. military presence:
  - ▶ U.S. importance as a deterrent to Iraq and Iran
  - ▶ Concern that the U.S. will overstay its welcome

(Continued)



## **Regional Views on Role of U.S. Overseas Presence: --The View from the Arabian Peninsula (Cont'd)--**

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- ▶ "It is natural for our allies to deploy as part of security arrangements in the region. The Gulf States continue to have some sort of security fears and thus, they do not mind a U.S. presence!" --Sheikh Hamad bin Jassim al-Thani, Foreign Minister of Qatar, July 1996.
  
- ▶ Presence is welcome but "people are uncomfortable if the presence goes on too long, and they don't believe it to be in the long term interest of the country...The Saudis are more amenable to U.S. involvement or advice because they need the U.S. more than the U.S. needs them."  
--Ambassador Adnan Pachachi, political advisor to the UAE leadership, Iraqi by birth and former Foreign Minister of Iraq, May 1996.

End of "The View from the Arabian Peninsula"



## **Regional Views on Role of U.S. Overseas Presence:**

**-- *The View from East Asia* --**

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- ▶ There is widespread agreement on the importance of U.S. military presence as a critical stabilizing factor in the region
- ▶ Even the PRC does not oppose presence *per se*, despite bitterness about U.S. role during 1996 Taiwan missile crisis
- ▶ Awareness in Taiwan of new maritime PRC focus toward south: potentially more friction over Spratleys, Taiwan
- ▶ U.S. military presence seen as restraint upon Japan, whose own expanded role in the region evokes mixed reactions in PRC, Korea, ASEAN
- ▶ American military presence will remain important to Korea even after unification, though its nature will change
- ▶ Concern about U.S. staying power is widespread throughout the region

(Continued)



**Regional Views on Role of U.S. Overseas Presence:  
--The View from East Asia (Cont'd)--**

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- ▶ "We have to accept the reality that there is no combination of forces in ASEAN that could stand up to a military confrontation with China. Unless there is an outside force, such as America, there can be no balance in the region." --Lee Kuan Yew, Senior Minister and Former Prime Minister of Singapore, April 1996.
- ▶ "U.S. presence was the mainstay for stability in the region for the past 50 years and will continue to be." --Dr. Jusuf Wannandi, Director, Indonesian Center for Strategic and International Studies.



## **Special Role of Maritime Presence: -- Views from the Eastern Mediterranean --**

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- ▶ Widespread appreciation of maritime, especially naval presence, for crisis control, e.g. the Imia Island crisis
- ▶ Preference for the combination of visibility and flexibility that maritime presence offers
- ▶ Presence seen as creating fewer difficulties with local populations
- ▶ Mixed feelings about aircraft carriers
  - ▶ Potential "overkill" in non-crisis situations
  - ▶ But embodiment of "battle group"

Continued



**Special Role of Maritime Presence:**  
**-- Views from the Eastern Mediterranean (Cont'd) --**

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- ▶ "Naval presence is ideal because it provides the necessary visibility while avoiding sensitivities that arise through having foreign land forces...Naval forces also give the flexibility in tackling conflicts in other areas, e.g. Taiwan." --Captain Eli Oren (Navy), Head of Strategic Planning Department, Israel Defence Forces.
- ▶ "Port visits by carriers should be dealt with care...seen as instruments of "gunboat diplomacy" at the highest level." --Vice Admiral Anastassios Dimitracopoulos, Hellenic Navy.



**Special Role of Maritime Presence:  
-- A View from the Arabian Peninsula--**

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- ▶ For smaller Gulf States, desire for visible relationship competes with fear of excessive U.S. presence
- ▶ Lingering preference for "over-the-horizon" presence
- ▶ Little enthusiasm for land-based presence, despite recognition of its near-term necessity
- ▶ "The loss of the U.S. Navy in the Indian Ocean would be a 'disaster'." --Sheikh Hamad bin Abdullah al-Thani, Minister of State for Defense, Qatar.



## **Special Role of Maritime Presence:**

**-- Views from Asia --**

- 
- 
- ▶ Growing sense that PRC threat is maritime; carriers a key element in U.S. deterrent
  - ▶ General agreement that land based presence is a reflection of "70s thinking;" preference for flexible capabilities
  - ▶ Maritime presence most valued in Taiwan
  - ▶ Assumption that maritime forces will dominate post-unification U.S. presence in Korea
  - ▶ Freedom of navigation/open sea lanes as important as ever

Continued



## **Special Role of Maritime Presence:**

**-- Views from Asia (Cont'd) --**

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- ▶ In terms of presence, "#1 is the fleet. When I think of presence I don't think immediately of 100,000 troops...In the next few years, in accordance with developments in Korea, troop levels should be adjusted." --Dr. Jusuf Wannandi, Director, Indonesian Center for Strategic and International Studies.
- ▶ "Land and air bases wear out their welcome...Maritime presence affords an important stabilizing effect for the region." --Admiral Yeh Chang-Tung (ret.), strategic advisor to the President of Taiwan.
- ▶ "It depends on whom you have to deter. If it's China, you have to be credible. Only a carrier will do." --Dr. Jusuf Wannandi, Director, Indonesian Center for Strategic and International Studies.

Continued



## **Special Role of Maritime Presence:**

**-- Views from Asia (Cont'd) --**

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### **► Naval Bases**

**--Yokosuka is the largest U.S. Navy base in the Western Pacific. No Asian interviewees mentioned, let alone criticized, it.**

### **► Land Bases**

**-- Okinawa remains a focus of tension.  
-- Most Koreans expect a significant (possibly total) drawdown of U.S. presence after unification.**



## -- Perceptions of U.S. Reliability --

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- ▶ Consensus in all regions that overseas military presence is best indicator of U.S. reliability as "friend in need"
- ▶ Presence demonstrates the American willingness to *implement* its commitments
- ▶ Presence underscores American role as "honest broker," whether between Greece and Turkey or Israel and the Arab States
- ▶ Concern about America's financial and budgetary will to support presence eats away at view of America as a reliable ally

(Continued)



## -- Perceptions of U.S. Reliability (Cont'd)--

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- ▶ "The U.S. presence is important because it reflects the capability to implement the commitment. All elements that could challenge the status quo in the Middle East are aware of U.S. presence and its implications."  
--Brigadier General Shlomo Brom, Head of Strategic Planning Division, Israeli Defense Forces, May 1996.
- ▶ There is "a concern about America losing interest in the security of the Gulf in the future, because of the discovery of alternate sources of energy...American budgetary cuts, or even an American reversion to a new bout of isolationism. Such concerns are beyond comprehension given the current state of affairs, but policy-makers are driven to such extremes of thought because of fast changes in the Gulf security landscape." --Sami al-Faraj, Kuwaiti Security Analyst
- ▶ "Of course your presence is important to us, but will your finances hold up to support it over the long term?" --Dr. Lee Kin-Tat, Singapore Businessman



## **Maritime Presence, Stability and Economic Interests: -- Some Regional Views --**

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- ▶ **"Economic development needs a strategic backbone to act as a deterrent to adventurism"** --Emre Gonensay, Minister of Foreign Affairs, Turkey, April 1996.
- ▶ **"Presence is important, first, for security and stability and second, for investment"** --Sheikh Hammad bin-Jassim al-Thani, Minister of Foreign Affairs, Qatar, January 1996.
- ▶ **"Presence has an important impact on business. It affords stability, which is crucial for domestic business and foreign investment. Investors are reassured by the American presence."** --Dr. Dong Joon Hwang, Korean Institute for Defense Affairs, May 1996.
- ▶ **"Presence is crucial. It is important to keep the sea lanes open for business. It is important to the U.S., to Singapore, to East Asia as a whole,"** --Brigadier General George Yeo, SAF (ret.), Minister of Communications, former Deputy Ministry of Foreign Affairs, Singapore.



## **GROWTH IN U.S. TRADE: Eastern Mediterranean**

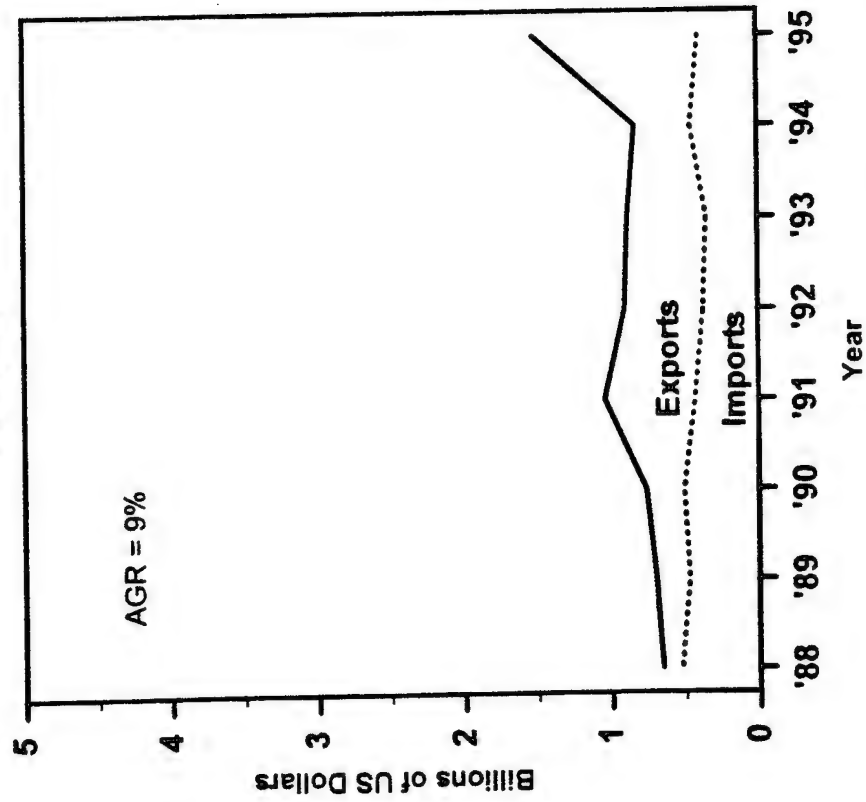
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- ▶ Greece's primary trade links with EU (is EU member)
- ▶ Increase with Turkey due to:
  - ▶ Reduction of trade barriers begun by Turgut Ozal
  - ▶ Inability to enter EU
- ▶ Increase with Israel due to:
  - ▶ Free trade area with U.S. (1985)
  - ▶ Increasing U.S.-Israeli hi-tech partnerships
  - ▶ Peace process

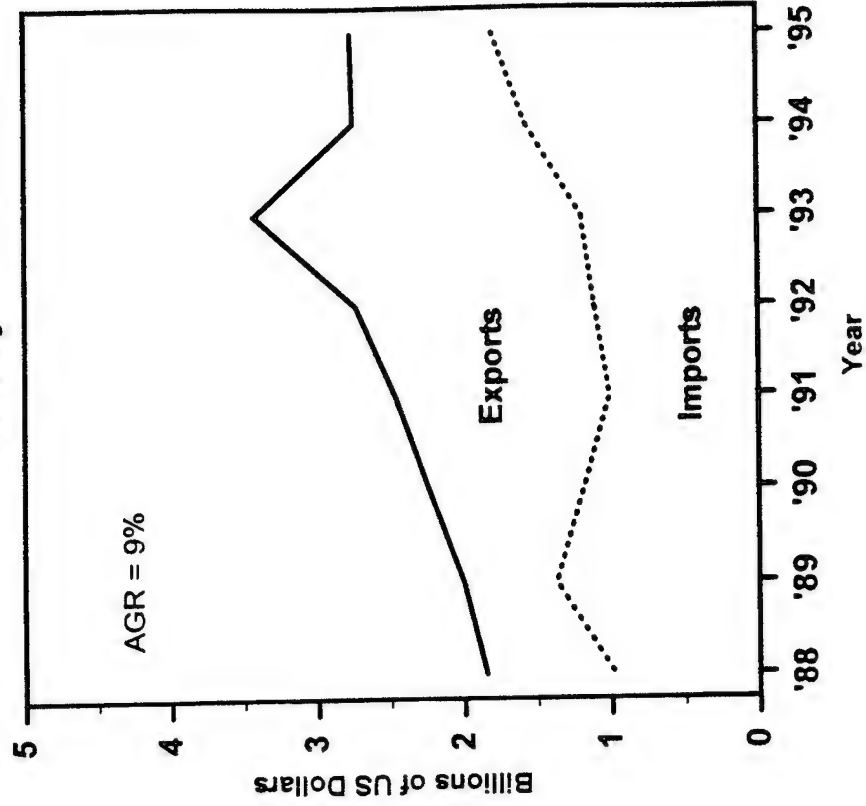


## GROWTH IN U.S. TRADE Eastern Mediterranean

### Greece



### Turkey

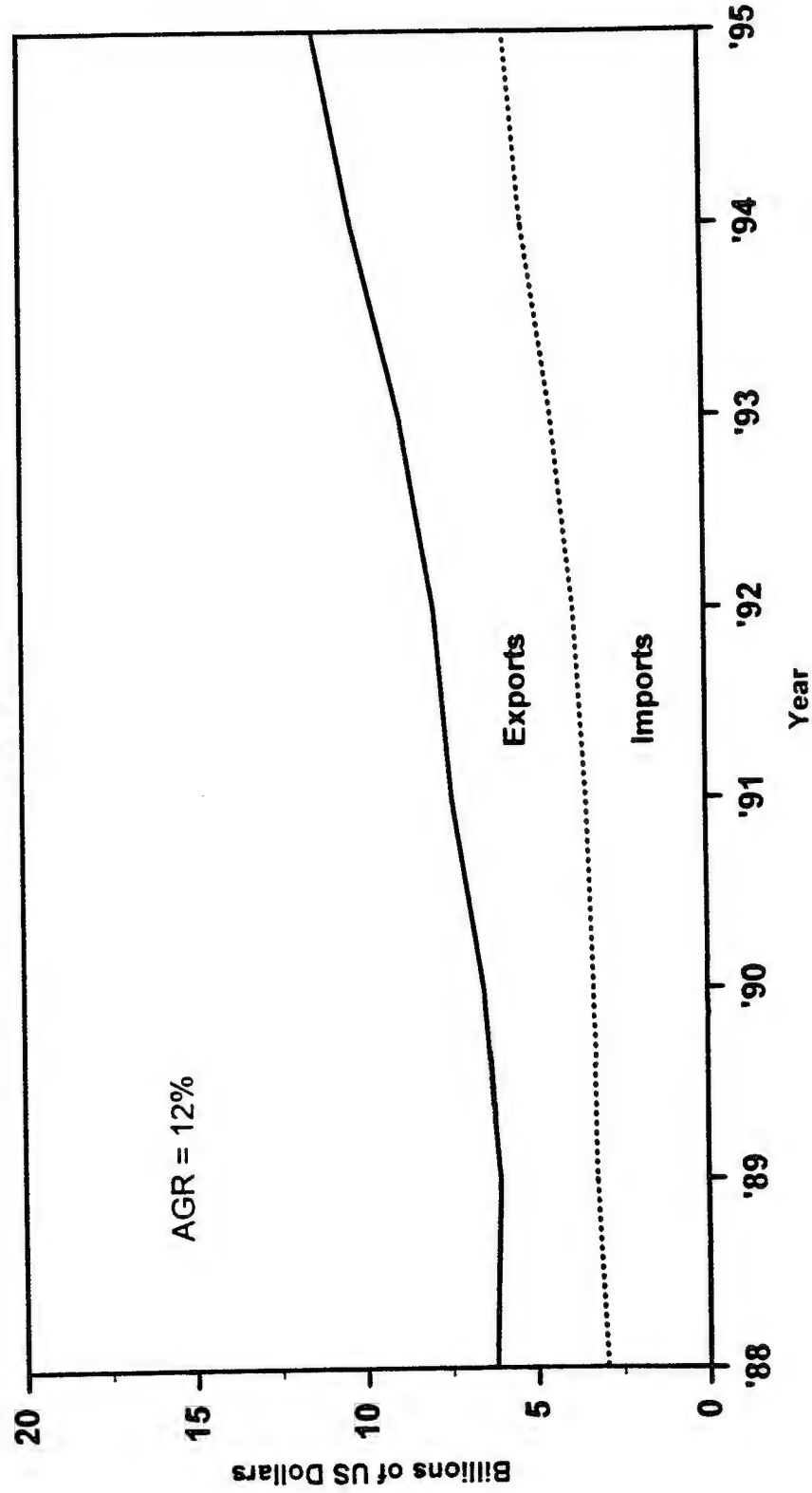


Source: US Department of Commerce, International Trade Administration,  
US Foreign Trade Highlights 1995, Table 6 (exports) & Table 7 (imports)



## GROWTH IN U.S. TRADE Eastern Mediterranean

### Israel



Source: US Department of Commerce, International Trade Administration,  
US Foreign Trade Highlights 1995, Table 6 (exports) & Table 7 (imports)



## **GROWTH IN U.S. DIRECT INVESTMENT Eastern Mediterranean**

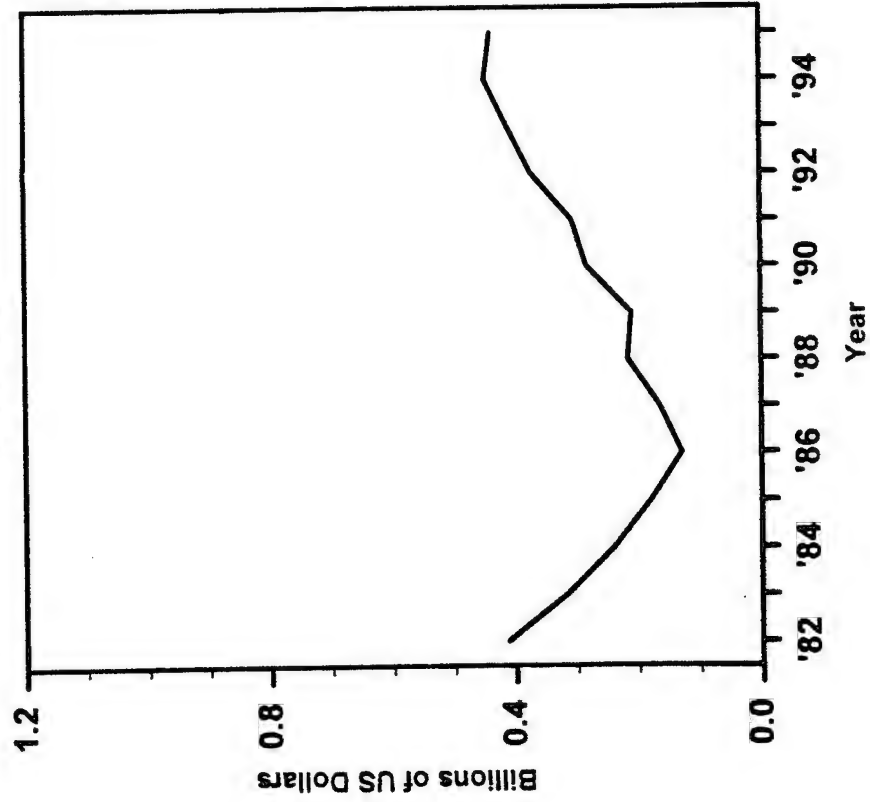
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- ▶ **More favorable climate in Greece after EU membership**
- ▶ **Reduction in restrictions begun by Ozal**
- ▶ **Booming Israeli GDP due to immigration, peace process, expansion of high technology sector**

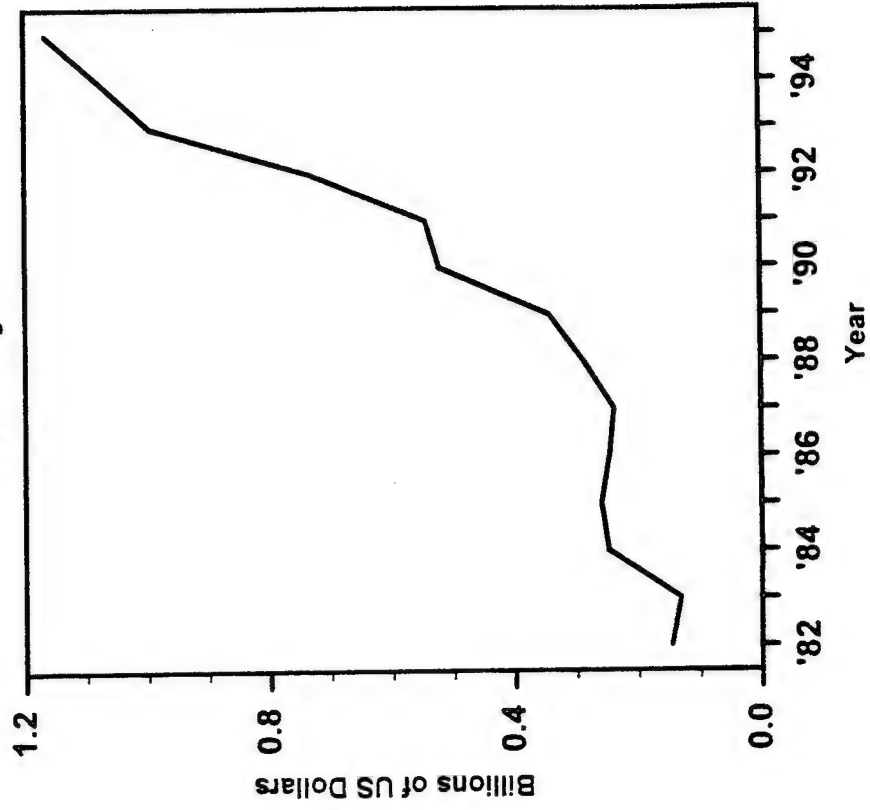


## GROWTH IN U.S. DIRECT INVESTMENT Eastern Mediterranean

### Greece



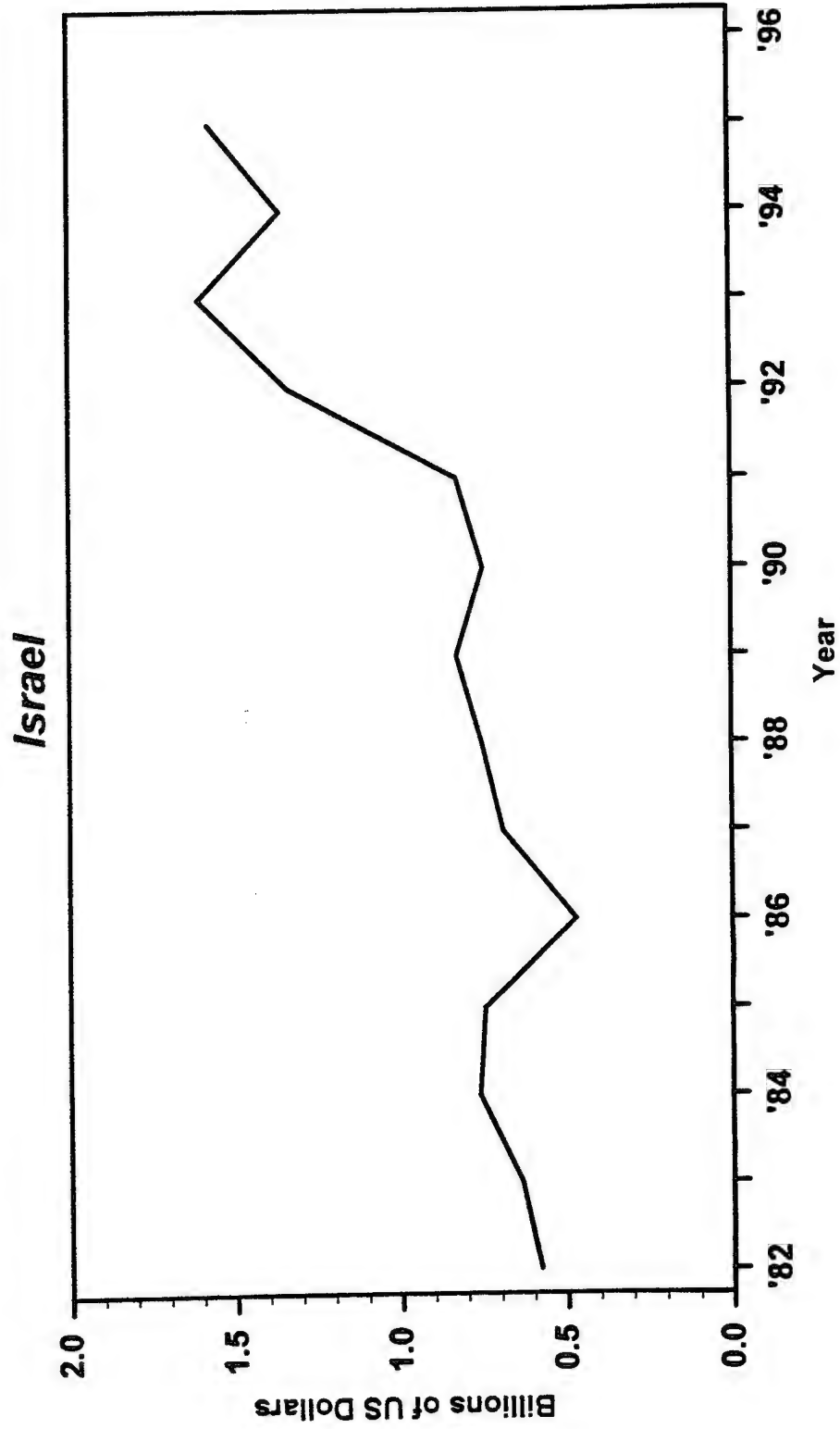
### Turkey



Source: US Department of Commerce, Bureau of Economic Analysis.



## GROWTH IN U.S. DIRECT INVESTMENT The Eastern Mediterranean



Source: US Department of Commerce, Bureau of Economic Analysis.



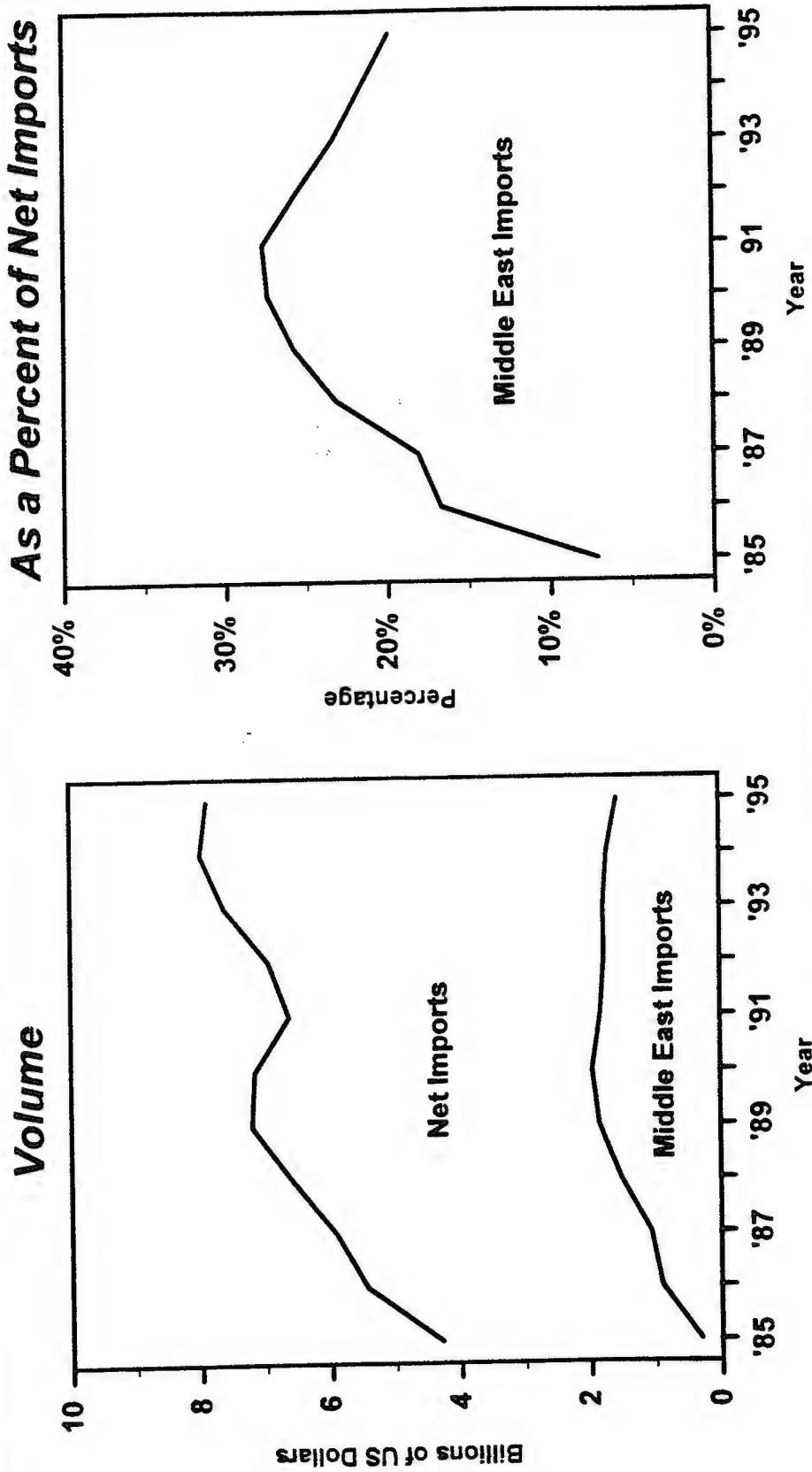
## **Western Petroleum Product Imports from the Persian Gulf**

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- ▶ Middle East imports declining percentage of total U.S. net imports
- ▶ 20 per cent level still significant impact of U.S. economy
- ▶ OECD as whole still heavily dependent on Middle East imports
- ▶ Japanese dependence continues to climb



## U.S. Petroleum Product Imports from the Persian Gulf

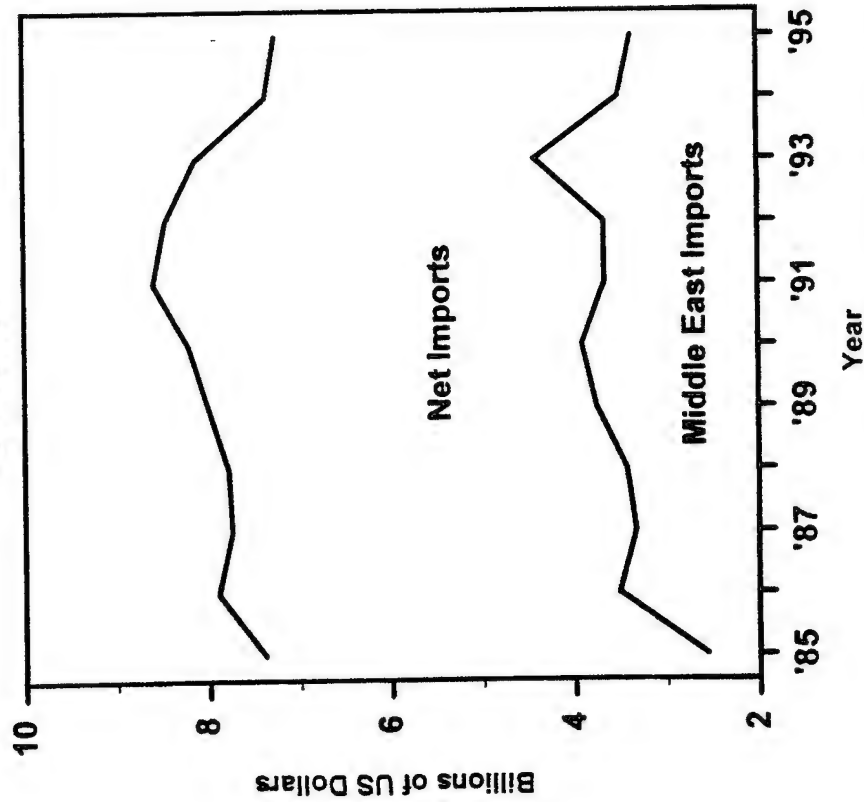


Note: Imports include crude oil, natural gas liquids, and refined products, and are on a direct basis.  
Source: Energy Information Agency, International Petroleum Statistics Report, July 1996

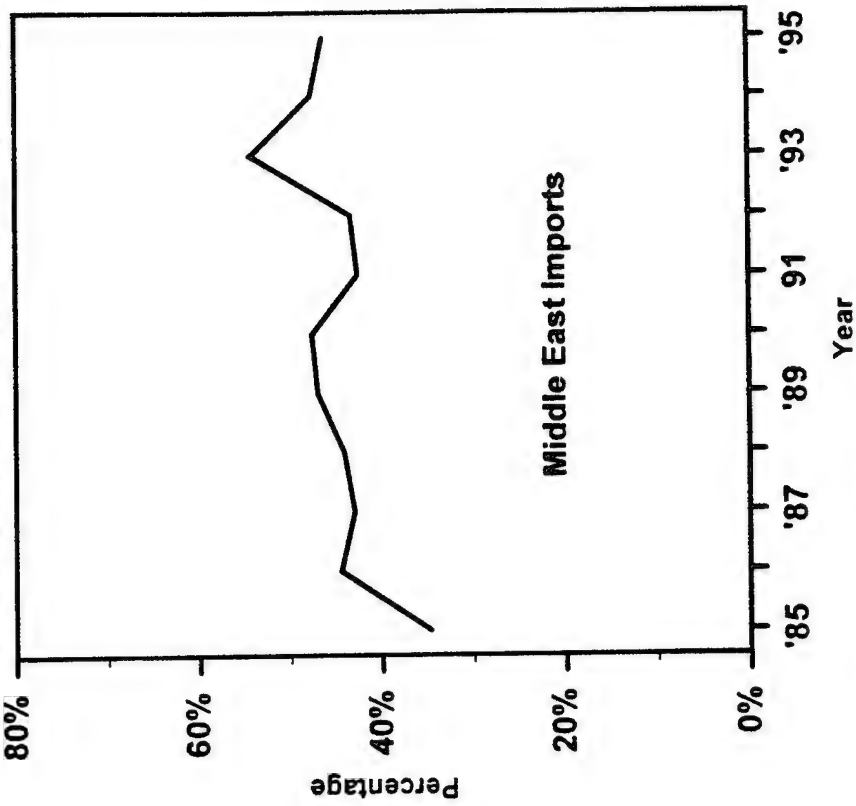


## OECD Petroleum Product Imports from the Persian Gulf

### Volume



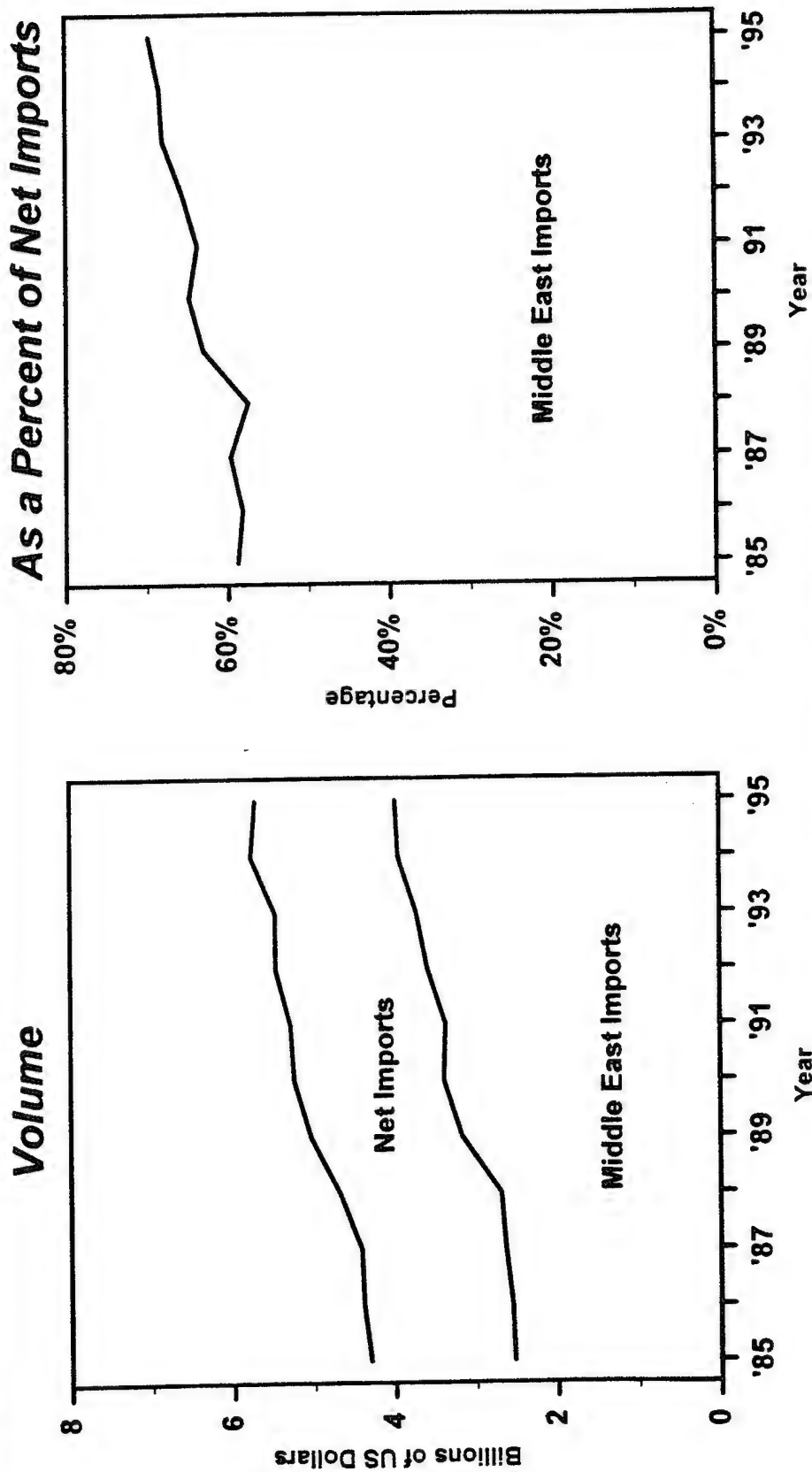
### As a Percent of Net Imports



Note: Imports include crude oil, natural gas liquids, and refined products, and are on a direct basis.  
Source: Energy Information Agency, International Petroleum Statistics Report, July 1996



## Japanese Petroleum Product Imports from the Persian Gulf



Note: Imports include crude oil, natural gas liquids, and refined products, and are on a direct basis.  
Source: Energy Information Agency, International Petroleum Statistics Report, July 1996



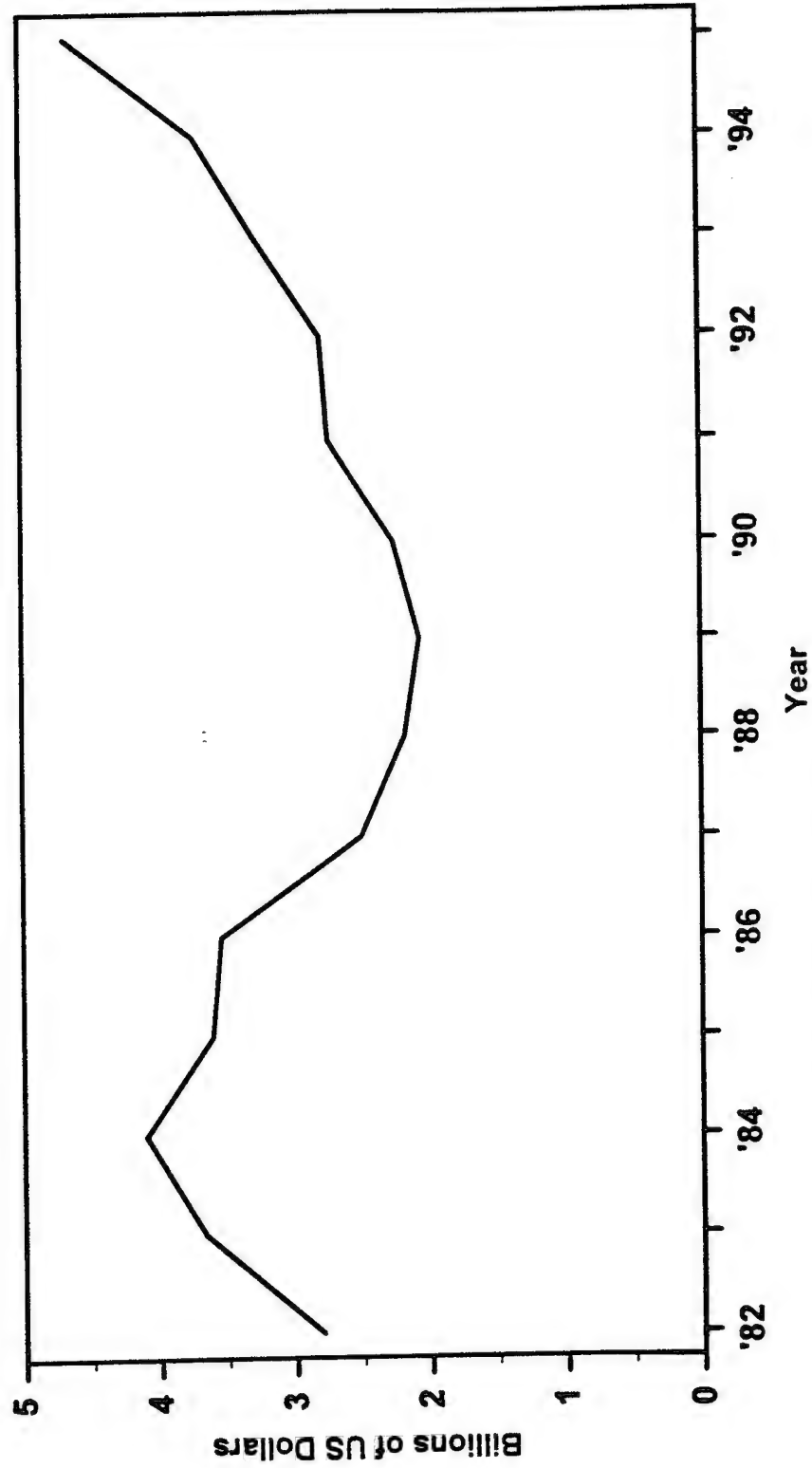
## **GROWTH IN U.S. DIRECT INVESTMENT GCC Nations**

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- **Upswing in investment after first Gulf War**
- **Sharper upswing after Desert Storm**
- **Some opening of Gulf economies to foreign investment especially after Gulf War, e.g. Kuwait, U.A.E.**
- **Expansion of key Gulf sectors, e.g. Qatar natural gas**



## GROWTH IN U.S. DIRECT INVESTMENT GCC Nations



Source: US Department of Commerce, Bureau of Economic Analysis.



## CRISIS PRESENCE: ECONOMIC IMPACT

Middle East

### **Iraqi Invasion of Kuwait**

- ▶ "U.S. presence has little effect on the economy of a wealthy country like U.A.E., except during times of crisis. We experienced a lot of capital flight after the invasion of Kuwait, but now that money has returned." -- Ambassador Adnan Pachachi, political advisor to UAE leadership, Former Iraqi Foreign Ministry.

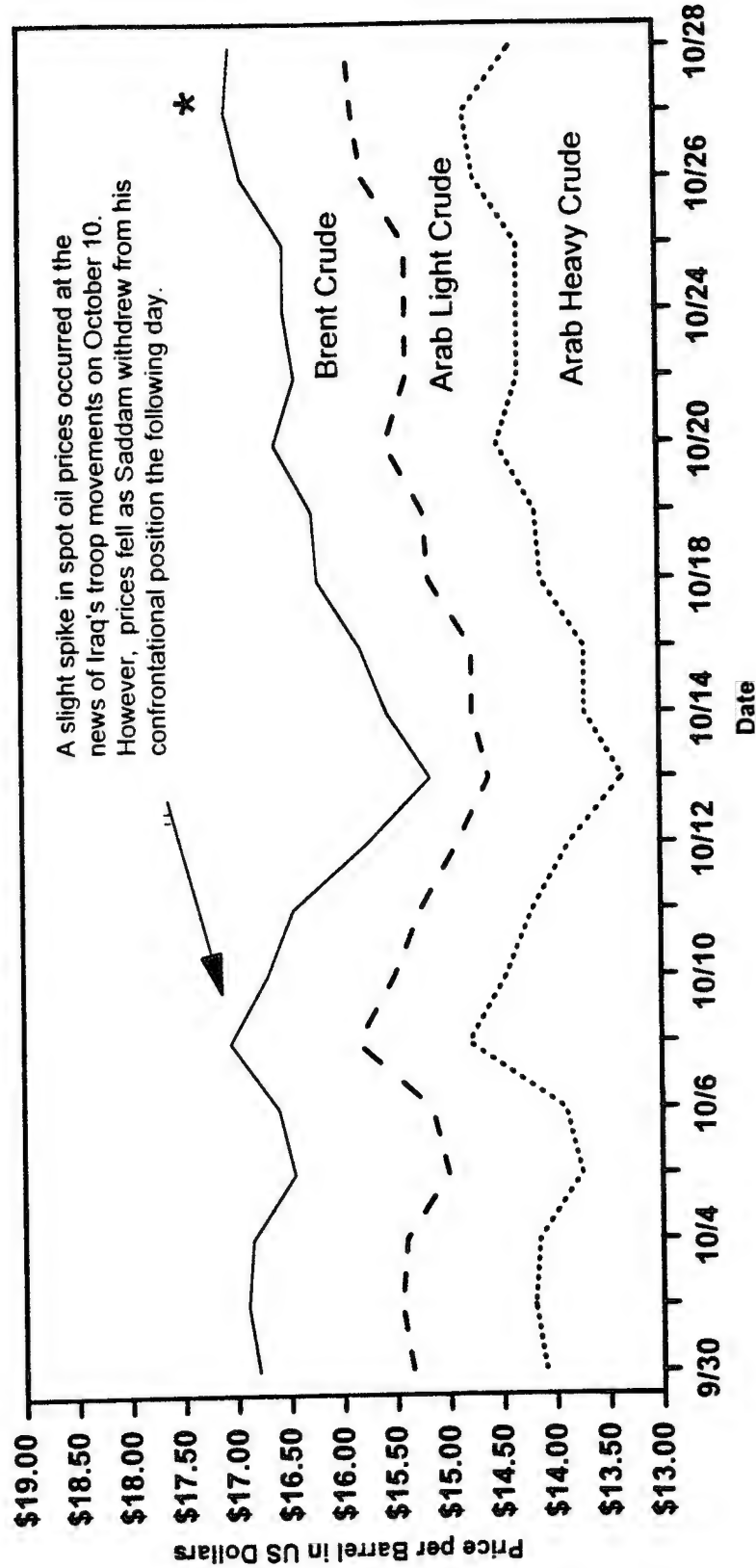
### **Iraqi Maneuvers on the Kuwaiti Border, October 1994**

- ▶ "World oil markets continue to be unfazed by the confrontation between Iraq and the United States over Iraq's threatening troop deployments . . . The main issue for oil markets in the current confrontation is Western resolve to contain Iraq--including its military power and oil export capacity." -- "Oil Markets Shake Off Iraqi Threat, But Long-Term Bullish Effect Expected," *The Oil Daily*, October 12, 1994, Vol. 44, No. 196



# **CRISIS PRESENCE: ECONOMIC IMPACT** **Iraqi Maneuvers on the Kuwaiti Border**

## **Spot Oil Prices** **Sept. 30 - Oct 28, 1994**



Source: Wall Street Journal

\*Note: The increase in price at the end of October reflects the markets reaction to a break in the Colonial Pipeline, the main artery carrying petroleum products from the Gulf Coast to the Eastern Seaboard of the United States.



## Presence, Stability and Economics: *The Asian Case*

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- ▶ "U.S. economic and security interests depend on Asian stability and justify a continued U.S. military presence in the region." --Council on Foreign Relations, 1996.
- ▶ "U.S. efforts should be focused on air and sea forces, leaving land forces to U.S. allies." --Council on Foreign Relations, 1996.
- ▶ "The real measure of the stability provided by U.S. military hegemony can be seen in the fears often expressed within the region about what might happen if the Americans pulled out... Confidence is the foundation of prosperity." --Dr. Denny Roy, Australian National University, in the *Business Times* (Singapore), August 1996.



## **GROWTH IN U.S. TRADE East Asia**

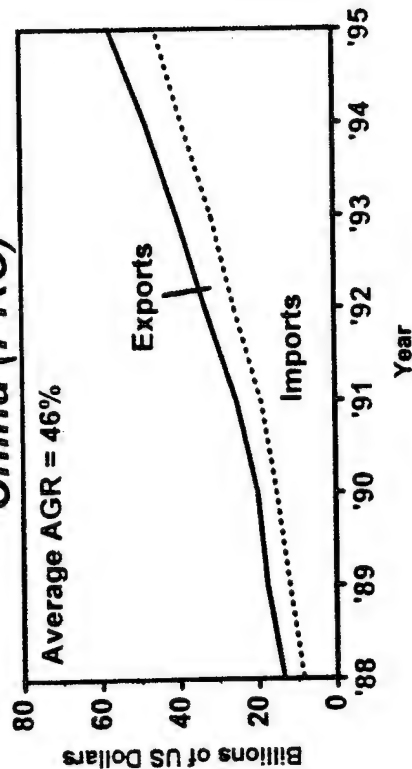
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- ▶ Sharp increases in trade with Asian Tigers and PRC
- ▶ U.S. continues to run deficits with Japan, sharp increases in trade deficits with China
- ▶ Sharp increases in imports from Indonesia (petroleum)

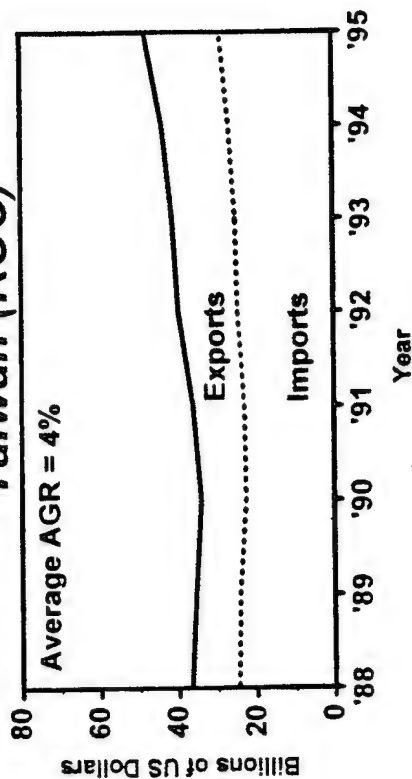


## GROWTH IN U.S. TRADE East Asia

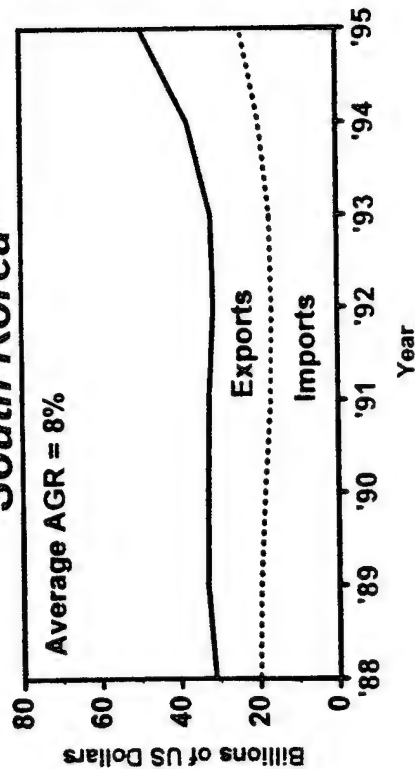
### China (PRC)



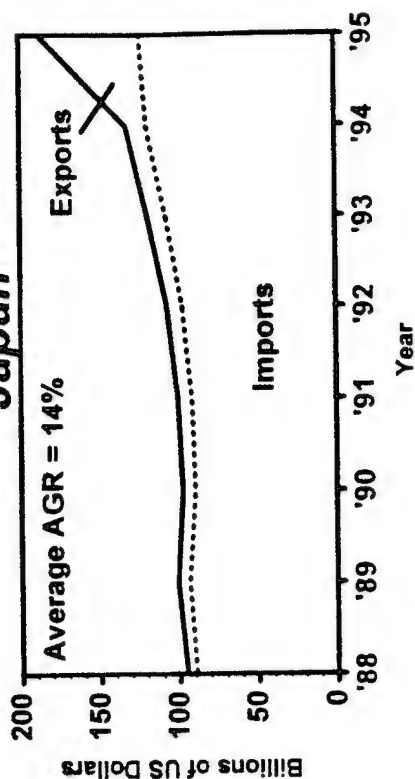
### Taiwan (ROC)



### South Korea



### Japan

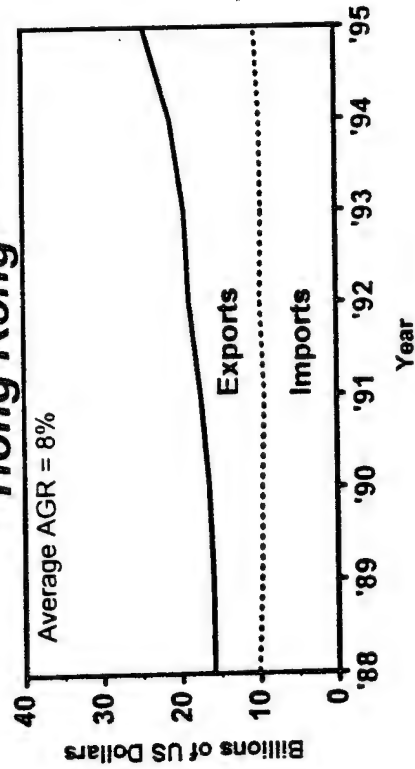


Source: US Department of Commerce, International Trade Administration,  
US Foreign Trade Highlights 1995, Table 6 (exports) & Table 7 (imports)

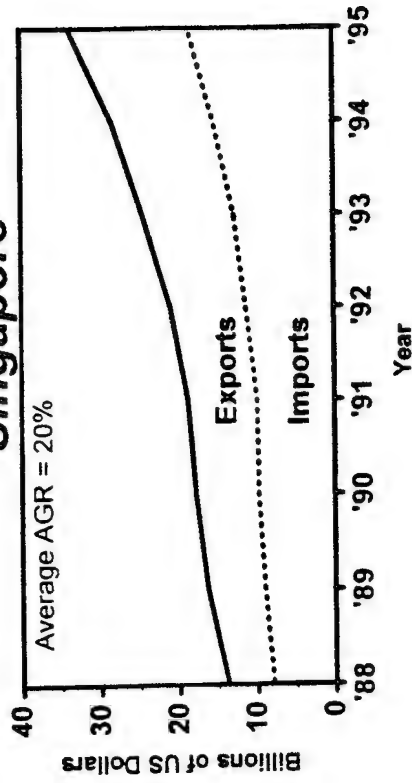


## GROWTH IN U.S. TRADE East Asia (Cont'd)

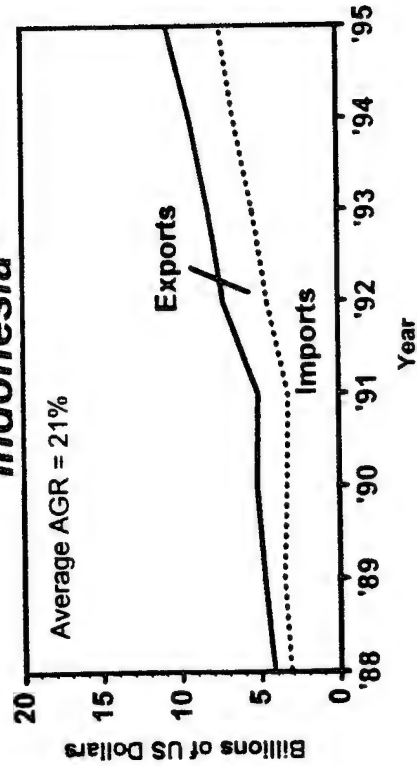
### Hong Kong



### Singapore



### Indonesia



Source: US Department of Commerce, International Trade Administration,  
US Foreign Trade Highlights 1995, Table 6 (exports) & Table 7 (imports)



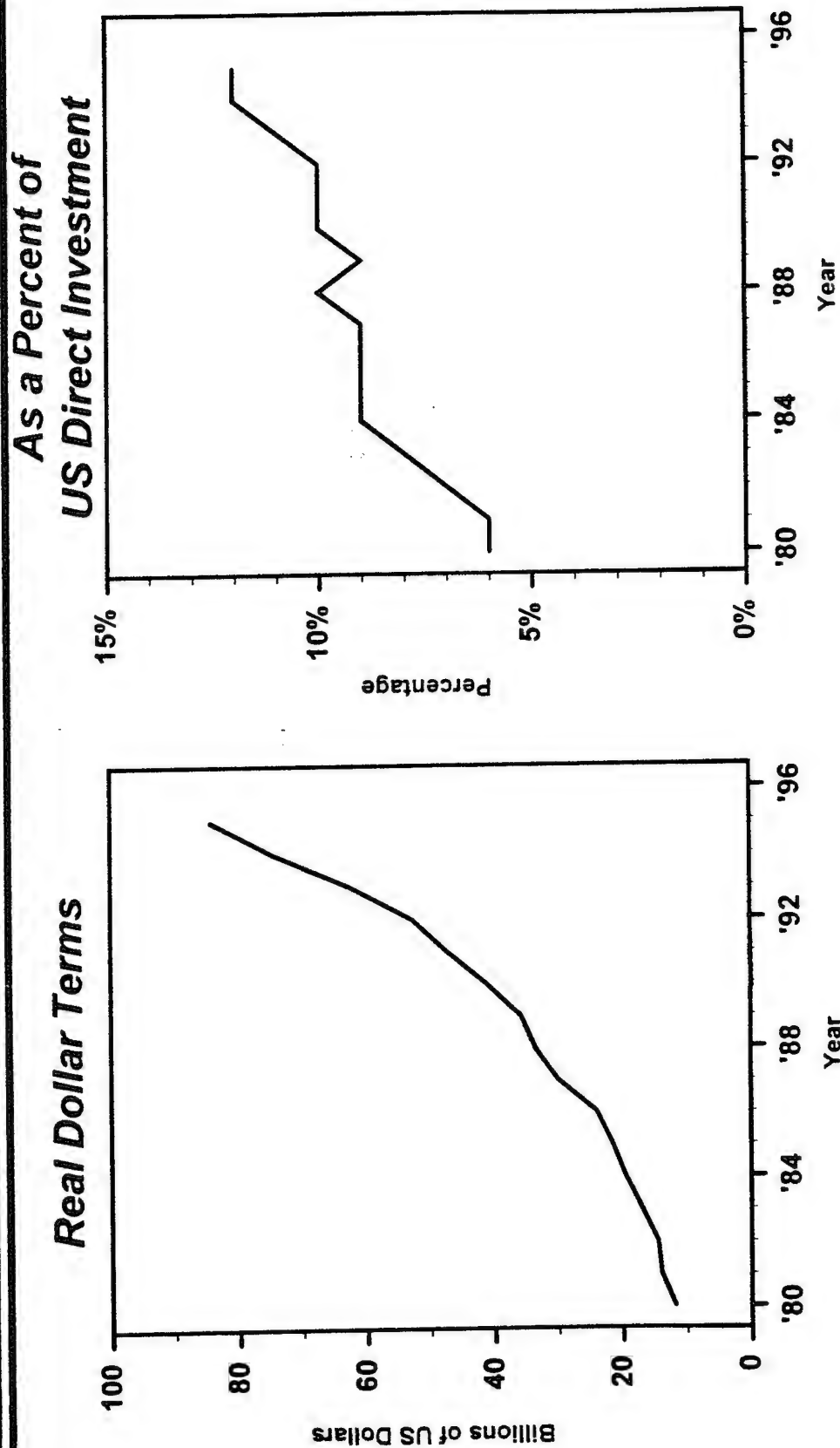
## **GROWTH IN U.S. DIRECT INVESTMENT East Asia Region**

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- ▶ Sharp increases in real dollar terms since early 1980s
- ▶ Accelerated increase in 1990s
- ▶ Now exceeds ten per cent of total U.S. direct investment
- ▶ Increases across the board in Asian Tigers, PRC and Japan
- ▶ Sharpest recent increases in PRC, Indonesia



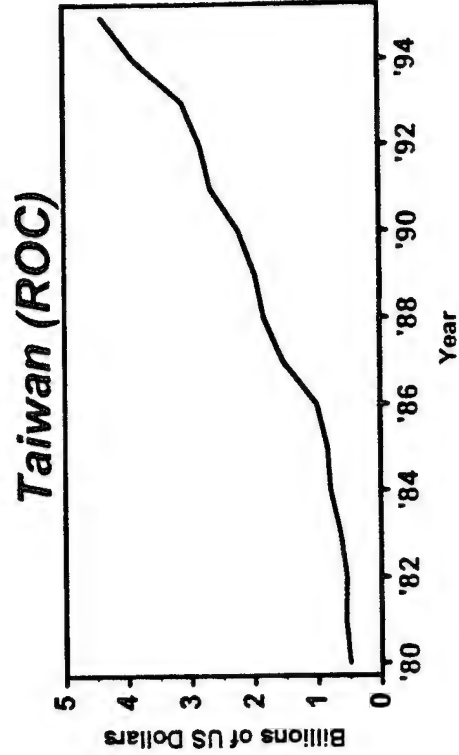
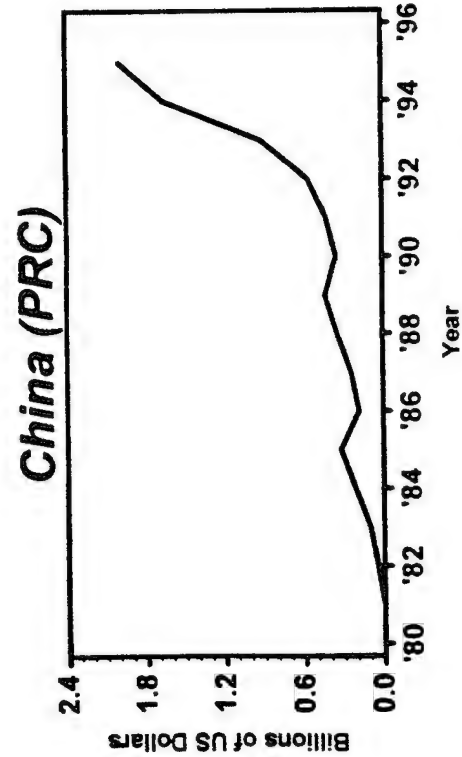
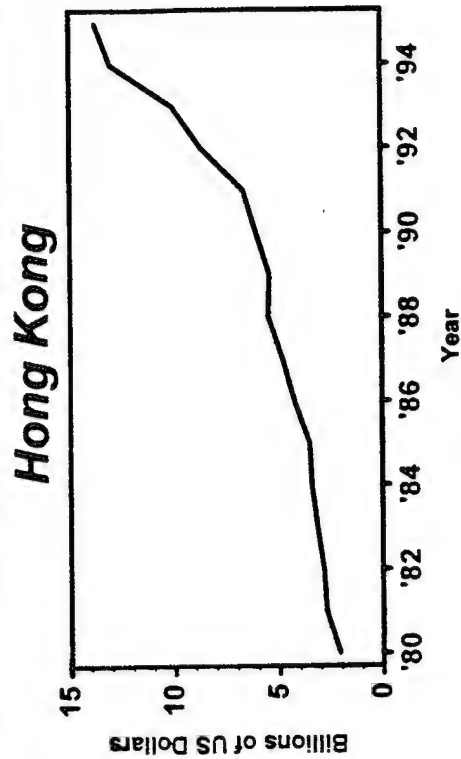
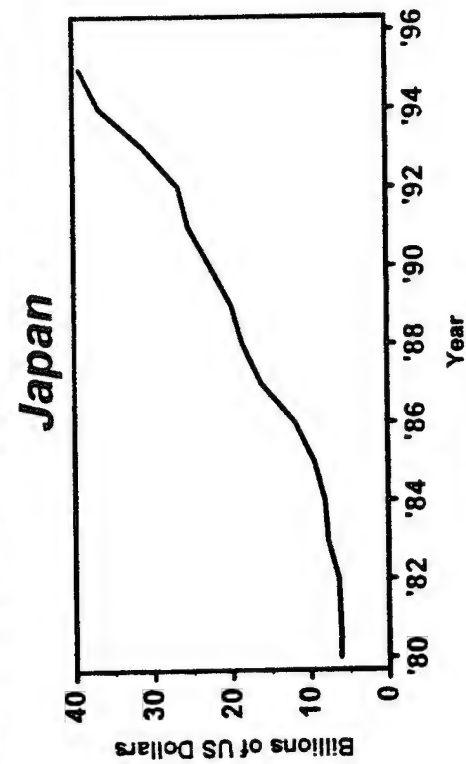
## GROWTH IN U.S. DIRECT INVESTMENT East Asia Region



Source: US Department of Commerce, Bureau of Economic Analysis,  
*Survey of Current Business* (various issues)



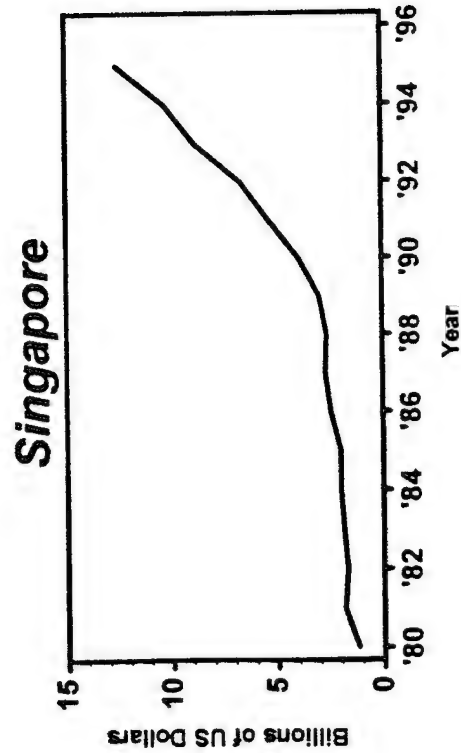
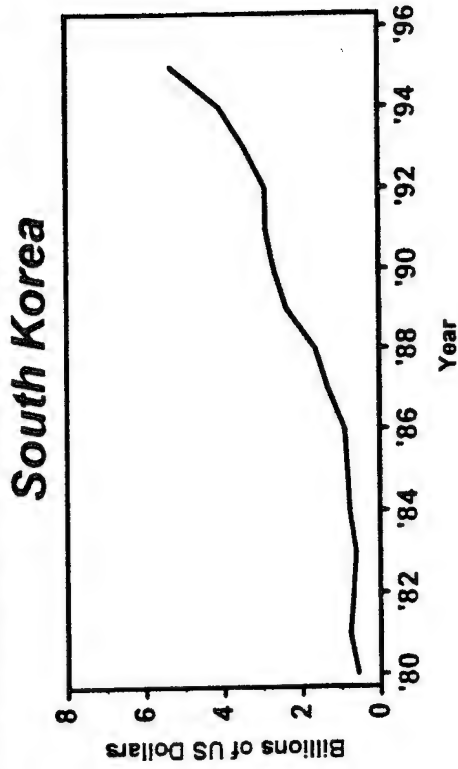
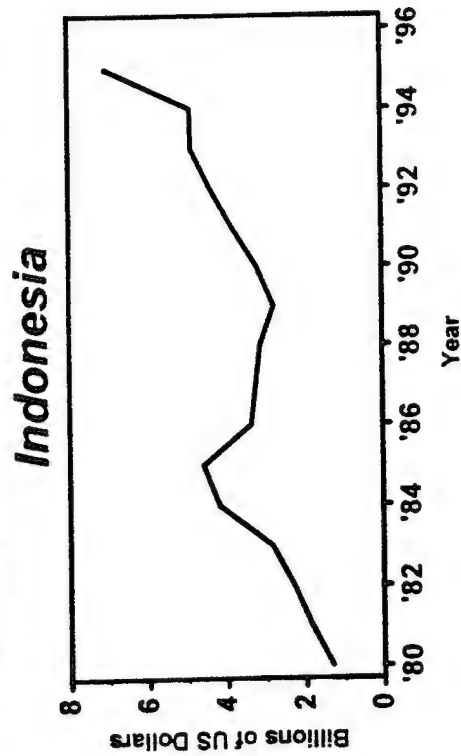
## GROWTH IN U.S. DIRECT INVESTMENT East Asia By Country



Source: US Department of Commerce, Bureau of Economic Analysis



## GROWTH IN U.S. DIRECT INVESTMENT East Asia By Country



### South Korea

."US Direct Investment here more than doubled from 1994-1995." --*Korean Trade and Investment*, Jan-Feb 1996

### Singapore

."In 1995, U.S. firms invested 2.1 billion in Singapore dollars, equaling 31% of total investments." .The U.S. was Singapore's largest single investor, beating European (\$1.5 billion), Japanese (\$1.2 billion), and local companies (\$1.2 billion). --*Far Eastern Economic Review*, May 9, 1996.

Source (Chart Data): US Department of Commerce, Bureau of Economic Analysis



## American Based Asia/Pacific Equity Funds

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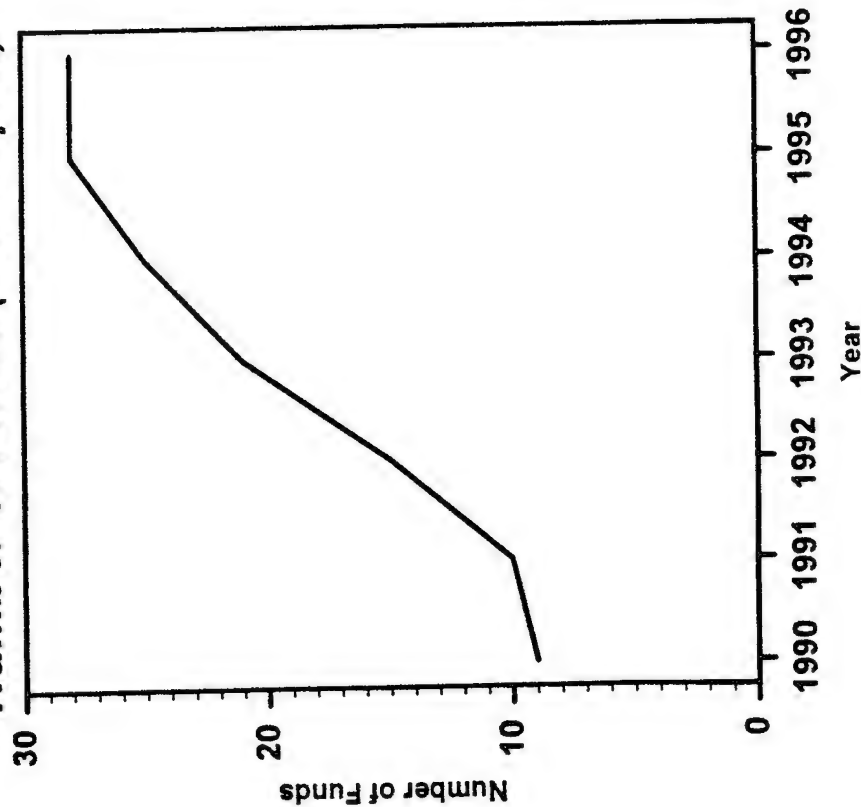
- ▶ Pacific Funds comprise 28% of International Funds.
- ▶ Market Capitalization increased by an average of 94.8% annually from 1985 to 1996.
- ▶ Distribution of Pacific funds: Japan 27%, Hong Kong 24%, Singapore 9%, Malaysia 8%, and Thailand 7%.
- ▶ Funds are composed of 93% stocks, 5% cash, .4% bonds and 1.5% other.

SOURCES: Morningstar, *Mutual Funds*, Analysis Section, April 26, 1996  
Investment Company Institute

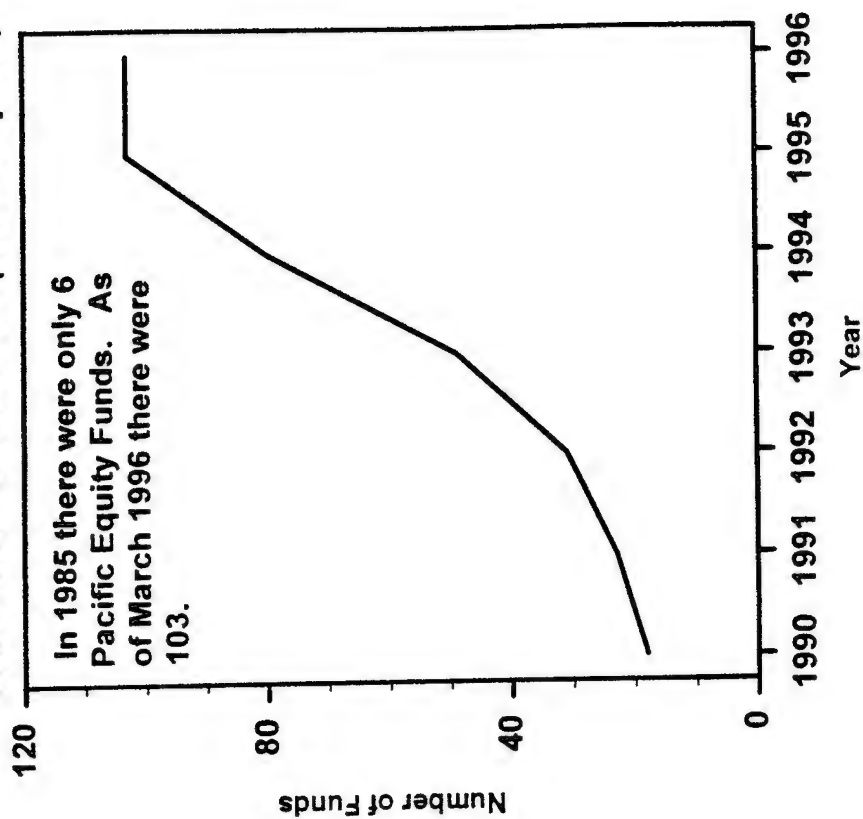


## American Based Asia/Pacific Equity Funds

**Number of Funds (exc. Japan)**



**Number of Funds (inc. Japan)**



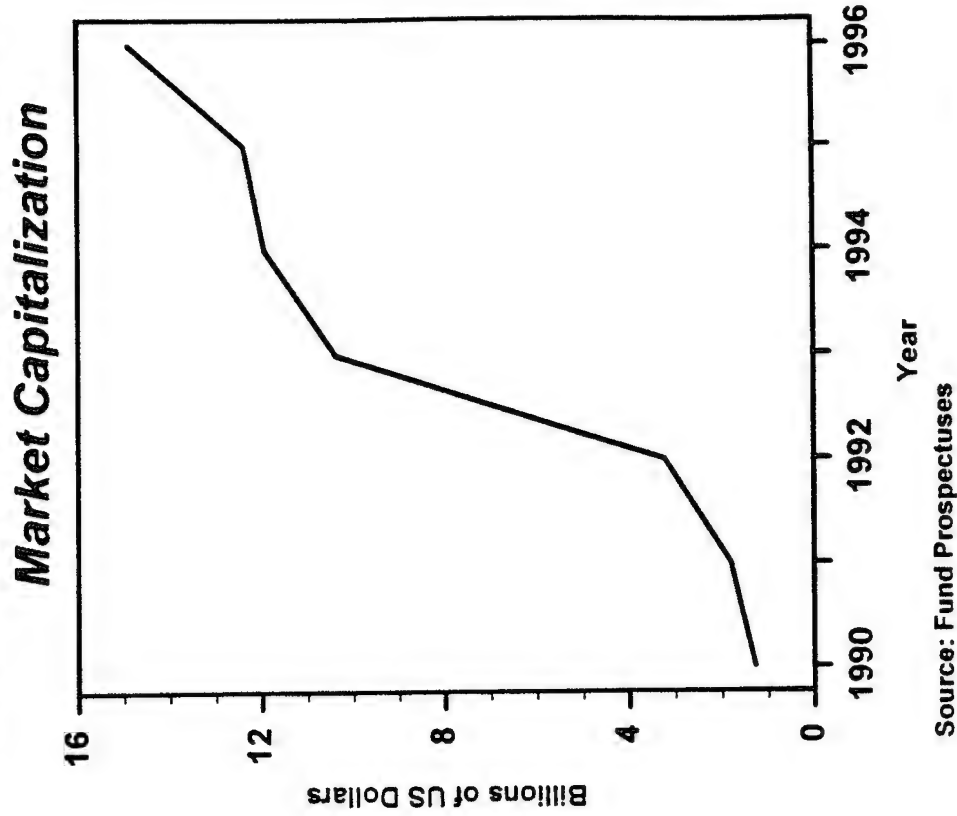
Source: Fund Prospectuses

Note: Includes only funds with greater than \$100 M in assets



## American Based Asia/Pacific Equity Funds (Excluding Japan)

- ▶ At least 65% of each fund is invested in the Asia/Pacific region.
- ▶ Market capitalization increased from \$1.28 billion in 1990 to \$14.89 billion in 1996

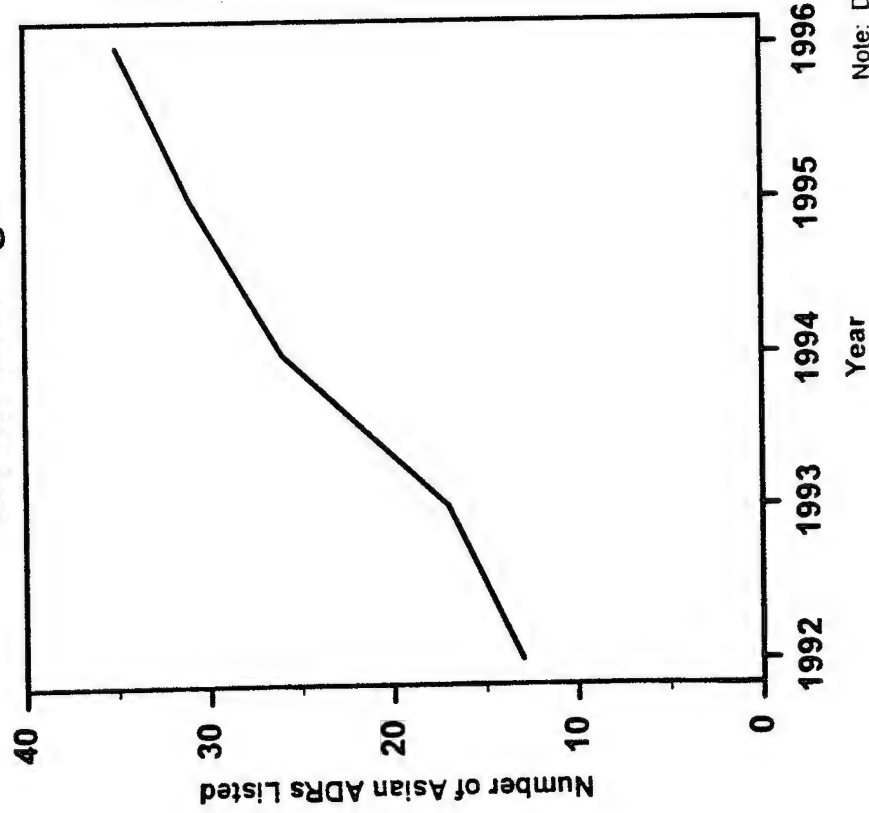


Note: Includes only funds with greater than \$100 M in assets

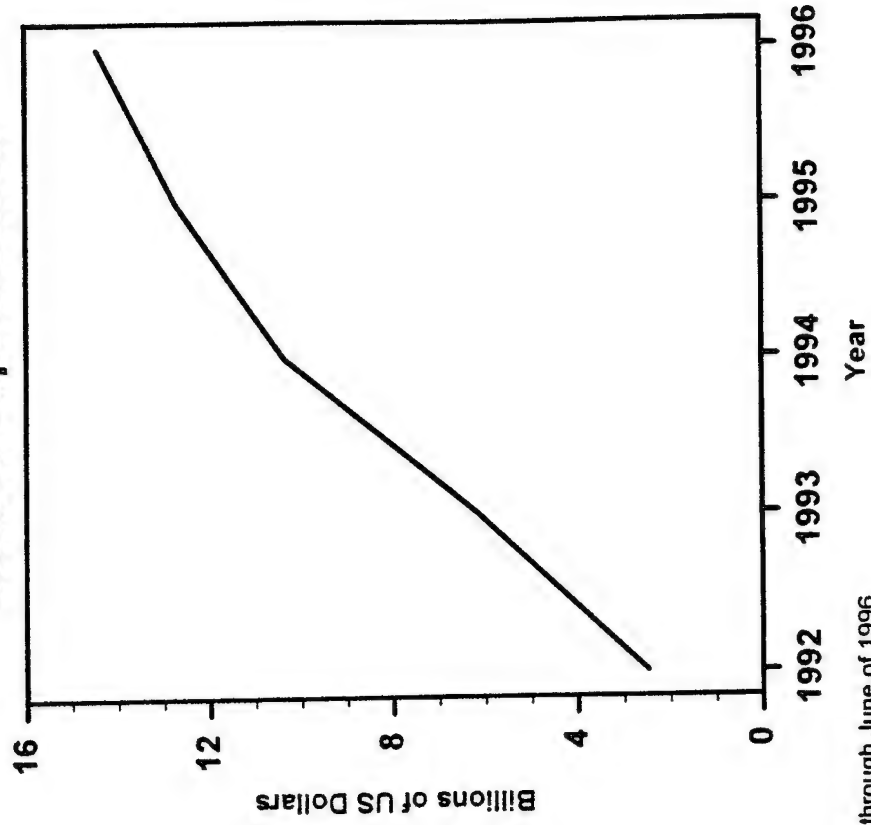


## Asian ADRs Listed on the NYSE

**NYSE Listings**



**Market Capitalization**



Note: Data through June of 1996

Source: New York Stock Exchange, Research Department



## CRISIS PRESENCE: ECONOMIC IMPACT

### Taiwan Election Crisis

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- ▶ *"In Hong Kong, the market's blood bath was the worst in percentage terms since 1991, following the steep drop Friday in New York and stepped-up China-Taiwan tensions, though a large part of the soaring activity was driven by derivatives such as stock warrants and futures. Many investors awaited China's reaction to Washington's decision to send warships to Taiwan."* --Wall Street Journal, March 12, 1996, p. C22.
- ▶ **"The economic impact of the (recent) crisis was horrible. The economy picked up immediately when the United States intervened."** --Lin Yu-Fang, Taiwanese New Party Legislator and chairman of the Legislative Yuan's defense committee.
- ▶ **Immediately following the crisis, the Taiwanese press reported that the crisis had impaired Taiwan's imports and exports, both of which showed negative growth for the first time in two years.** --see Sofia Wu, "War Games Contribute to Export Drop," CNA (in English), 8 April 1996.
- ▶ **Markets closest to Taiwan affected -- Hong Kong and Taiwan -- other Asian markets showed little turbulence.**



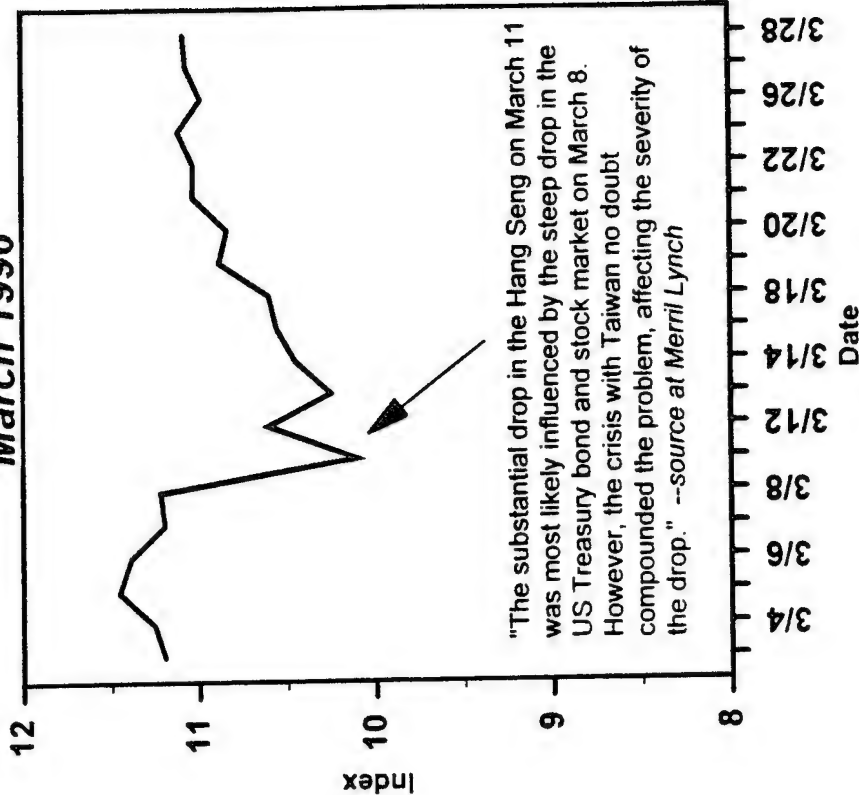
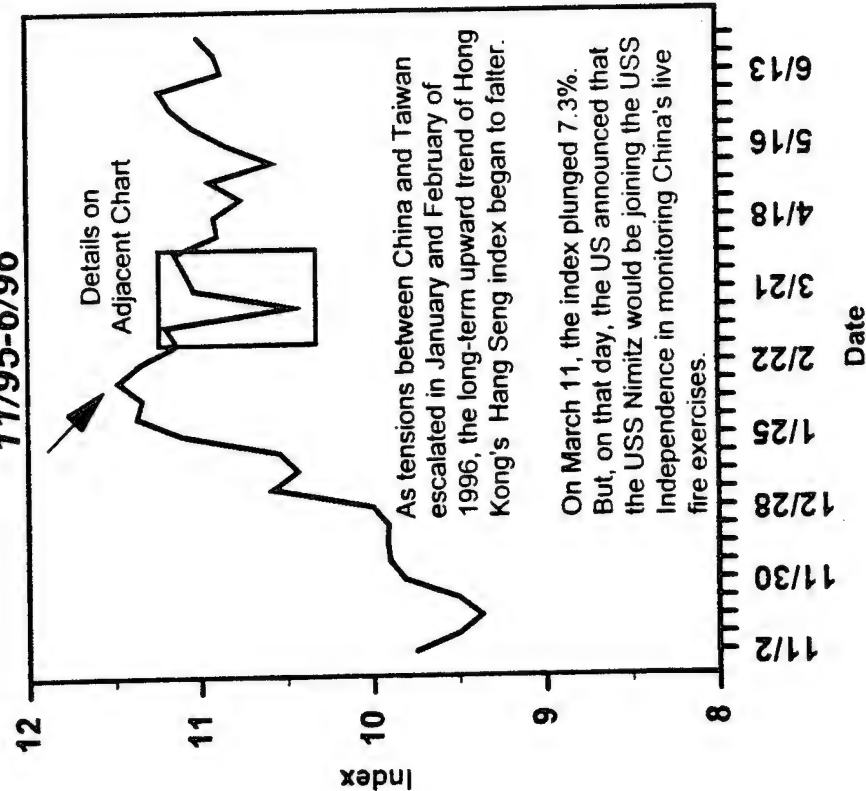
## CRISIS PRESENCE: ECONOMIC IMPACT

### Taiwan Election Crisis

**Weekly Closings**  
**11/95-6/96**

**Hang Seng Index**

**Daily Closings**  
**March 1996**



Source: Wall Street Journal

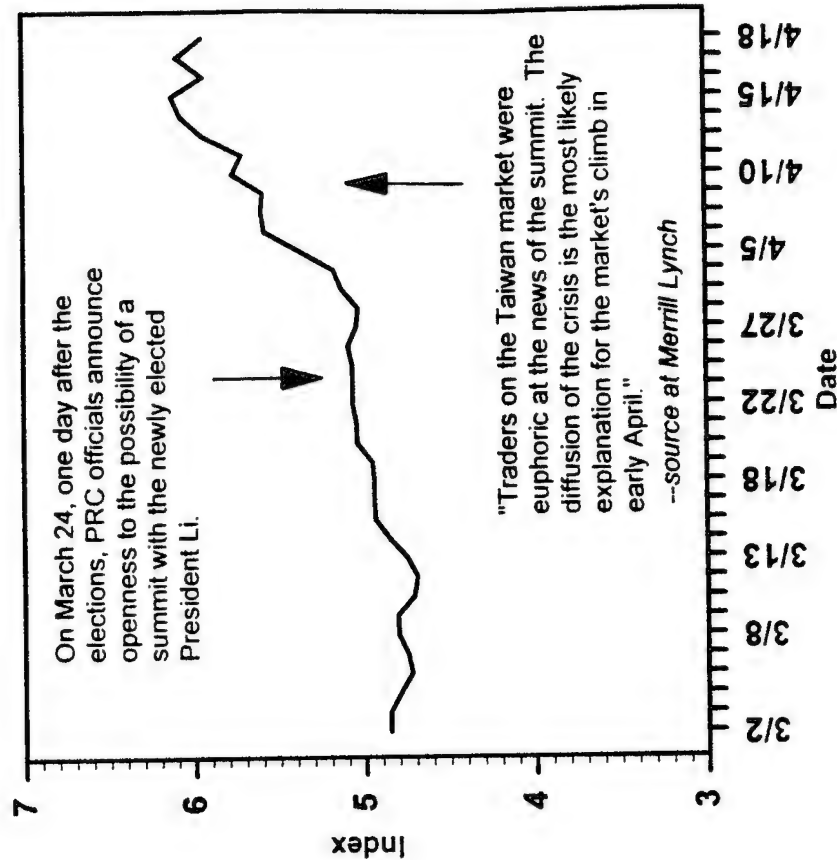
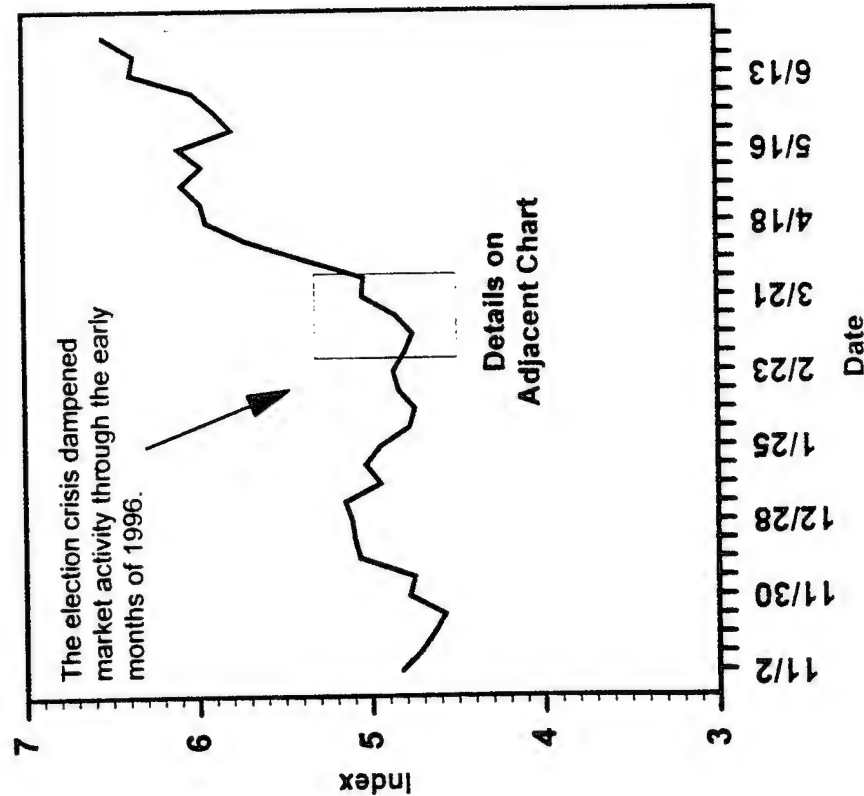


# **CRISIS PRESENCE: ECONOMIC IMPACT** **Taiwan Election Crisis**

**Weekly Closings**  
**11/95-6/96**

**Taiwan Stock Exchange**  
**Weighted Index**

**Daily Closings**  
**March 2 - April 18, 1996**



Source: Bloomberg Business Service



## Cost of War vs. Cost of Presence

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- ▶ Objective: establish military presence "Peacetime Insurance Premium"
- ▶ Gulf War most recent source for "Cost of War" (DOD Estimates)
- ▶ Need to double estimate to account for 2 MRCs
- ▶ SPC's constant force modernization model (CFM) basis for estimating presence O&M, acquisition replacement



## Cost of War vs. Cost of Annual Overseas Presence

	DESERT SHIELD/ DESERT STORM	Global Presence
End Strength (K)	158	238
Costs (FY97\$)		
Operations and Support (O&S)	\$39B	\$11B
Acquisition		
Replacement	9	1
Wear and Tear	1	---
Subtotal	49B	12B
Two MRC Requirement	x2	---
TOTAL	\$98B	\$12B

Note:

1. DS/DS END-Strength was 158K; March 1996 overseas presence end-strength was 238K.
2. Military pay cost equals 10B in both cases.
3. O & M estimate for Global Presence based on historical per capita cost.
4. Acquisition Replacement estimate for Global Presence equals depreciation value of PREPO ships and War Reserve Stocks.
5. DS/DS wear and tear cost reflects additional costs related to the acceleration of retirement given the OPTEMPO rate.



## Cost of Gulf War Vs Cost of Presence

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### CAVEATS

- ▶ Desert Storm a "Cheap War"
  - ▶ Short war
  - ▶ Few losses
- ▶ CFM may overstate peacetime costs
  - ▶ Per-active military person calculation (O&M)
  - ▶ Exponential growth in acquisition (replacement) costs
- ▶ Insurance premium estimate thus likely to be high
- ▶ More detailed research necessary



## Findings

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### General

#### I. Perceptions of Overseas Elites

- ▶ Overseas elites in friendly states ascribe as much importance to U.S. regional presence as does the United States government and business community.
- ▶ There is a general perception that presence is a stabilizing factor both in political and economic terms.
- ▶ Presence is seen as especially important as an inducement to American investment overseas.
- ▶ Maritime presence is the preferred long-term form of presence in many friendly states, because it is less intrusive.
- ▶ Carrier presence is often discussed interchangeably with maritime presence.

(Continued)



## Findings (Cont'd)

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### General

#### II. Economics and Forward Presence

- ▶ American investment in the Eastern Mediterranean and Asia has risen sharply, more than doubling in each region since the end of the Cold War.
- ▶ The levels of American imports of Persian Gulf petroleum products have declined slightly since the end of the Cold War.
- ▶ Limited evidence indicates a correlation between overseas market stability and the ability of American forces to defuse crises quickly.
- ▶ The annual cost of the "peacetime insurance premium" represents no more than 1/8 of the likely cost of the 2 MRC scenarios.



## Implications for EUCOM

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- ▶ Maritime presence is a major reassuring factor for Israel and a stability factor for Greece and Turkey.
- ▶ There is some preference for carrier battle groups.
- ▶ Expanding investments in the Mediterranean region will likely result in a continual regional desire for an American presence.
- ▶ There is no demand for expanding the current minimal American land-based presence in the region.



## Implications for CENTCOM

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- ▶ American presence continues to be welcomed by regional opinion leaders and policy makers, especially in smaller states.
- ▶ Presence is viewed as a stabilizing factor in both economic and political terms.
- ▶ Maritime presence is preferred
- ▶ There is an undercurrent of hostility to land-based presence, especially land forces.
- ▶ Petroleum remains a major American import; imports have decreased slightly since the end of the Cold War.
- ▶ In contrast, Japanese imports have increased significantly (about 20%) since 1991.
- ▶ The potential for coalition building in the region remains strong.



## Implications for PACOM

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- ▶ Military presence is the most cogent indication of long-term American commitment to the region.
- ▶ Gradual drawdown of U.S. land forces is anticipated, but causes little apprehension.
- ▶ Flexible presence, especially maritime presence, is welcomed by U.S. regional friends, notably all the ASEAN states.
- ▶ Presence is seen as the key to economic stability and growth.
- ▶ The American economic stake in East Asia continues to grow, especially the stake in mutual funds.
- ▶ The case of the Taiwan crisis underscores the long-held view that crises disrupt markets and investments, and, ultimately, American prosperity.

**APPENDIX**

**ADDITIONAL RESPONDENTS' VIEWS**



## **Regional Views on Role of U.S. Overseas Presence:** **-- *The View from the Eastern Mediterranean* --**

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### **TURKEY**

- ▶ "U.S. military presence is a useful stabilizing factor, that makes a positive contribution from a security point of view. In terms of deterrence value, it helps keep Iran and Iraq at bay." --Dr. Ali Karaosmanoglu, Chairman of the Department of International Relations, Bilkent University, May 1996.
- ▶ "U.S. presence in the area is vital to Turkey, not just for the Black Sea, but also for Iran and Iraq...European Navies lack the capacity to constitute such forces on a scale and versatility comparable to that of the United States." --General Halis Berhan, Chief of Turkish Air Force (ret.), May 1996.

### **GREECE**

- ▶ "U.S. military presence is a major contribution toward preventing military problems. U.S. presence is now accepted by the general public." --Commodore Antonio Antoniadis, Director, Policy Division of the Hellenic Navy, General Staff, May 1996.

(Continued)



## **Regional Views on Role of U.S. Overseas Presence:** **-- *The View from the Eastern Mediterranean (Cont'd)* --**

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### **ISRAEL**

- ▶ **The United States as superpower, "must willingly or unwillingly assume responsibility for defense in critical areas."** --Major General Menahem Meron, IDF (ret.) former Director General of the Ministry of Defense, May 1996.
- ▶ **"With the demise of the USSR, in Israel's view, the importance of U.S. presence has not lessened."** --Zalman Shoval, Head of the Bureau of Foreign Relations, the Likud, Chairman of the Board, Bank of Jerusalem, former Ambassador to Washington, May 1996.
- ▶ **"Israel favors the U.S. staying around...defense is not for Israel *per se*, but as a base for the defense of the rest of the Middle East."** --Brigadier General Shimon Hefetz, military advisor to President Weitzmann, May 1996.
- ▶ **Presence is "everything that shows the flag, whether it be ships or a battery of Patriots. Politically, morally, psychologically it has a big impact" and is what made the difference in the Gulf War. "We were able to buy the time."** --Admiral Avraham Ben-Shoshan, IN (ret.), Director General, Ministry of Labour and Social Affairs, Israel, May, 1991.



## **Regional Views on Role of U.S. Overseas Presence:** **--The View from the Arabian Peninsula --**

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### **BAHRAIN**

- ▶ American presence is a "stabilizing factor" in the region, protecting small states against bigger neighbors, especially Iran. --Ghazi Algosaibi, Undersecretary at the Foreign Ministry and Former Ambassador to Washington, January 1996.

### **QATAR**

- ▶ "It is natural for our allies to deploy as part of security arrangements in the region. The Gulf states continue to have some sort of security fears and thus, they do not mind a U.S. presence!" --Sheikh Hamad bin Jassim al-Thani, Foreign Minister, July 1996.

(Continued)



## **Regional Views on Role of U.S. Overseas Presence: --The View from the Arabian Peninsula (Cont'd) --**

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### **UNITED ARAB EMIRATES**

- ▶ Since the Gulf War, "The GCC sense of insecurity, i.e. Iran, Iraq, regional imbalances, made GCC more dependent on foreign protection. The increasing GCC reliance on U.S. protection combined with U.S. need for oil steadily deepening, developed a special (U.S.-GCC) relationship."  
--Dr. Abdulhaleq Abdulla, UAE; visiting professor at Georgetown University's Center for Contemporary Arab Studies, June 1996.
- ▶ Presence is welcome but "people are uncomfortable if the presence goes on too long, and they don't believe it to be in the long term interest of the country...The Saudis are more amenable to U.S. involvement or advice because they need the U.S. more than the U.S. needs them." --Ambassador Adnan Pachachi, political advisor to the UAE leadership, Iraqi by birth and Former Minister of Iraq, May 1996.



## **Regional Views on Role of U.S. Overseas Presence:** **--The View from Asia --**

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### **SINGAPORE**

- ▶ Over the entire post-war period it was the climate of security and stability that United States power provided that enabled economic growth to germinate and flourish in Southeast Asia and across East Asia."  
--Professor S. Jayakumar, Minister of Foreign Affairs, April 1996.

### **INDONESIA**

- ▶ "U.S. presence was the mainstay for stability in the region for the past 50 years and will continue to be." --Dr. Jusuf Wannandi, Director, Indonesian Center for Strategic and International Studies.

### **TAIWAN**

- ▶ "Presence is not just important for China, but for all of East Asian stability." -- Dr. Ting Shou-Chung, Director-General, KMT Youth Foundation



## **Special Role of Maritime Presence: -- Views from the Eastern Mediterranean --**

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- ▶ "For the projection of power, the only force is the Navy...Has more visibility...is more multinational in orientation." --Commodore A. Antoniadis, Hellenic Navy.
- ▶ Naval presence is seen as "decisive, and interposing... U.S. military ships [are seen as] positive." --George Kapopoulos, Foreign Editor for *Investor*, a weekly Greek Politico-Economic newspaper.
- ▶ "The Air Force can't do the fighting by itself. In the final analysis you need the Army to occupy territory and the other services to complement, but a permanent presence of U.S. forces is bound to create (difficulties) with the populace." -- Ambassador Ioannis Tzounis, former Greek Deputy Minister of Foreign Affairs in 1992.



## **Special Role of Maritime Presence:**

### **-- Views from Asia --**

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- ▶ **"Numbers on the ground have less impact. With advances in communications and early warning, naval and air systems are more flexible and able to respond to crises."** --Dr. Chan Heng Chee, Director, Institute for Southeast Asian Studies, May 1996, Singapore, since July 1996, Ambassador to the U.S.
- ▶ **Japan pays 70% of the cost of U.S. bases, so from the point of view of young Japanese, U.S. troops are almost employees of the Japanese government...I support the Seventh Fleet, but you should gradually reduce land presence."** --Mr. Jitsuro Terashima, General Manager, Mitui USA
- ▶ **The Marine Corps is "...an appropriate presence for Japan: they are self-sufficient, and trained to react to any contingency."** --Chief Washington Representative, major Japanese corporation.



## -- Perceptions of Reality --

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- ▶ "Peace requires constant maintenance. A *credible* U.S. presence, one that demonstrates commitment as well as capability to respond, is necessary to prevent a possible chain reaction... Today, nobody dares to say that the U.S. is not an honest broker, but if [it] left and then came again it would be a different story." --Admiral Avraham Ben-Shoshan, (ret.), Director General, Israel Ministry of Labor and Social Affairs, May 1996.
- ▶ Regarding the Greek-Turkish situation, "everybody looks at the U.S. as the most likely intermediary... both sides consider the U.S. a legitimate third party." --Dr. Theodore Coulombis, President of the Hellenic Foundation for Defense and Foreign Policy; Professor, University of Athens, May 1996.
- ▶ The removal of America's maritime presence would "unleash an arms race" in East Asia. --Senior Taiwanese official.
- ▶ "The United States is now undergoing a more introspective phase. We do not take its military engagements in the Asia-Pacific for granted... Southeast Asia's most important task is to make the American people aware that Southeast Asia today represents, not a burden, but a great opportunity." --Professor S. Jayakumar, Minister of Foreign Affairs, Singapore.